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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 001529

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TAGS: [ECON](#) [PREL](#) [EAGR](#) [KFRED](#) [AM](#)
SUBJECT: CONCERN BUT NOT PANIC: ARMENIAN BUSINESSES COPE
WITH CLOSURE OF THE GEORGIA-RUSSIA BORDER

REF: A) YEREVAN 1396 B) YEREVAN 127

Classified By: EconOff E. Pelletreau for reasons 1.4 (b,d).

SUMMARY

11. (SBU) While Armenian officials have voiced considerable concern about the economic impact of the Georgian-Russian border closing, the Armenian business community's response has been relatively mild and fatalistic. Some local exporters report a 30 percent increase in shipping costs to Russia, but they are reluctant to go into the details of specific transactions. Many seem to be negotiating their own deals to get goods to Russian markets. Despite press reports that the number of Georgian air passengers transiting Armenia has dramatically increased, the Armenian Civil Aviation Authority, National Security Service (which runs the border police) and local airlines, report no significant increase in passengers. Armenian media reports claim Georgians living in Russia have begun Armenianizing their names and buying Armenian passports to substantiate bogus identities, though the GOAM denies this. END SUMMARY

CONCERN NOT PANIC

12. (SBU) Gary Kilmer, director of a USAID-sponsored project to help small- and medium-sized enterprises, recently asked a group of approximately 20 Armenian importers and exporters how the closure of the Georgian-Russian border affected their businesses. While all were concerned about the situation, none seemed overly alarmed. The typical response was one of fatalistic resignation to slightly higher shipping costs which were estimated to be up by 30 percent. The exporters were reluctant to go into detail about specific transactions and many suggested that they were negotiating their own deals, either paying increasing prices or bribes, to get their goods to market. Some of Armenia's largest exporters, including the General Director of Yerevan Brandy, which exports the majority of its product to Russia, and head of the Coca-Cola Bottling Company, told us that shipments to and from Russia are able to get through Georgia, so long as they are transported by non-Georgian freight forwarders and shipping companies. Press reports also suggest that Armenian businesses are using alternate routes to reach the Russian market, including shipping through Ukraine, Bulgaria and Romania.

RUSSIAN OFFICIALS SEEK TO REASSURE ARMENIA

13. (SBU) Russian officials are apparently mindful of the potential impact the Russian-Georgian dispute may have on Armenia. On a recent trip to Armenia, Russian Minister of Transportation Igor Levitin proposed that Armenian cargo could be shipped through the Turkish Black Sea port of Samsun to the Russian city of Port Kavkaz. He also said that Russia planned to resume and expand ferry service from Port Kavkaz, Russia to Poti, Georgia to help transport goods to and from Armenia. Total Armenian-Russian trade turnover for goods for January-August 2006 was \$250,000 or 13 percent of Armenian's overall external trade. According to press reports, the ferries will be able to carry 52 rail cars, but there is no available information on how often they will run.

AIR TRAFFIC REMAINS STABLE

14. (SBU) Local television stations have carried numerous stories claiming a sharp increase in Georgian passengers transiting Armenia on their way to and from Georgia. Head of Armenian Civil Aviation Artyom Movsesyan told us, however, that he had "not noticed any increase in the number of passengers of Georgian nationality transiting Armenia." Representatives from Armenia's only national airline, Armavia, and the Foreign Liaison of the National Security Service (of which the Armenian Border Guard Service is a constituent part) confirmed that there has been no increase. Both contacts speculated that there would soon be a significant decline in the number of Georgian passengers to Russia because Georgians can no longer obtain Russian visas. Recent Armenian press reports state that Georgians in Russia are changing their names to include the traditional Armenian

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"yan" suffix and are able to purchase Armenian passports for USD 5,000. The head of Public Relations for the Armenian Police publicly denied these reports.

GOT MILK?

15. (SBU) While all the exporters we spoke to have found ways to exports their products to Russia, it appears that some importers may be having problems. Last week, for example, there was no Russian UHT milk available in Yerevan for four or five days, though it is available now. So far the milk was an isolated case and other Russian food products are available with no noticeable price increase since the border closing.

COMMENT

16. (C) For the time being, the economic impact on Armenia of the Georgian-Russian border closure has been modest, largely because Georgian ports remain open and Russian gas exports to Armenia, which transit Georgia, have not been affected. If the gas is cut off, as it was last winter (ref B), or trade through Georgian seaports were interrupted, the potential impact could be severe.
GODFREY